HEXCEL CORP /DE/
Form 10-Q
April 23, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarter Ended March 31, 2018

or

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 1-8472

Hexcel Corporation

(Exact name of registrant as specified in its charter)

Delaware	94-1109521
(State of Incorporation)	(I.R.S. Employer Identification No.)

Two Stamford Plaza

281 Tresser Boulevard

Stamford, Connecticut 06901-3238

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (203) 969-0666

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 16, 2018
COMMON STOCK	89,474,993

HEXCEL CORPORATION AND SUBSIDIARIES

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Condensed Consolidated Financial Statements

Hexcel Corporation and Subsidiaries
Condensed Consolidated Balance Sheets

(In millions)	(Unaudited) March 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$49.8	$60.1
Accounts receivable, net	295.6	248.7
Inventories, net	300.8	314.0
Contract assets	35.2	
Prepaid expenses and other current assets	34.5	33.9
Total current assets	715.9	656.7
Property, plant and equipment	2,815.1	2,743.9
Less accumulated depreciation	(913.0)	(877.6)
Net property, plant and equipment	1,902.1	1,866.3
Goodwill and other intangible assets	150.2	148.7
Investments in affiliated companies	51.0	47.7
Other assets	65.5	61.5
Total assets	$2,884.7	$2,780.9
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portions of debt	$4.4	$4.3
Accounts payable	154.8	144.1
Accrued compensation and benefits	64.7	73.0
Accrued liabilities	46.9	40.7
Total current liabilities	270.8	262.1
Commitments and contingencies (see Note 12)		
Long-term debt	835.6	805.6
Retirement obligations	42.8	45.4
Other non-current liabilities	173.0	172.7
Total liabilities	1,322.2	1,285.8
Stockholders' equity:		
Common stock, $0.01 par value, 200.0 shares authorized, 108.3 shares and 107.8 shares issued at March 31, 2018 and December 31, 2017, respectively	1.1	1.1

Additional paid-in capital	787.7	774.3
Retained earnings	1,548.7	1,496.1
Accumulated other comprehensive loss	(7.8)	(45.0)
	2,329.7	2,226.5
Less – Treasury stock, at cost, 18.7 shares at March 31, 2018, and 18.2 shares at December 31, 2017, respectively.	(767.2)	(731.4)
Total stockholders' equity	1,562.5	1,495.1
Total liabilities and stockholders' equity	$2,884.7	$2,780.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Operations

(In millions, except per share data)	(Unaudited) Quarter Ended March 31, 2018	2017
Net sales	$540.1	$478.8
Cost of sales	397.5	344.7
Gross margin	142.6	134.1
Selling, general and administrative expenses	46.4	42.9
Research and technology expenses	13.8	12.6
Operating income	82.4	78.6
Interest expense, net	8.0	6.2
Income before income taxes, and equity in earnings from affiliated companies	74.4	72.4
Provision for income taxes	14.1	8.6
Income before equity in earnings from affiliated companies	60.3	63.8
Equity in earnings from affiliated companies	1.3	0.8
Net income	$61.6	$64.6
Basic net income per common share	$0.68	$0.71
Diluted net income per common share	$0.68	$0.70
Dividends per share	$0.125	$0.11
Weighted-average common shares:		
Basic	90.0	91.4
Diluted	91.2	92.9

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(In millions)	(Unaudited) Quarter Ended March 31, 2018	2017
Net Income	$61.6	$64.6
Currency translation adjustments	31.6	9.1
Net unrealized pension and other benefit actuarial gains and prior service credits	(0.8)	(0.2)
Net unrealized gains on financial instruments (net of tax)	4.8	7.4

Total other comprehensive income	35.6	16.3
Comprehensive income	$97.2	$80.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

Hexcel Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows

	(Unaudited) Three Months Ended March 31,	
(In millions)	2018	2017
Cash flows from operating activities		
Net income	$61.6	$64.6
Reconciliation to net cash provided by operating activities:		
Depreciation and amortization	29.8	24.4
Amortization related to financing	0.3	0.4
Deferred income taxes	10.1	(5.1)
Equity in earnings from affiliated companies	(1.3)	(0.8)
Stock-based compensation	9.9	10.9
Changes in assets and liabilities:		
Increase in accounts receivable	(41.2)	(19.5)
Increase in inventories	(14.6)	(10.9)
Decrease (increase) in prepaid expenses and other current assets	2.6	(8.4)
Increase (decrease) in accounts payable/accrued liabilities	7.0	(0.9)
Other – net	(1.6)	(0.5)
Net cash provided by operating activities	62.6	54.2
Cash flows from investing activities		
Capital expenditures	(59.5)	(85.5)
Acquisition of business and investment in affiliate		(10.0)
Net cash used for investing activities	(59.5)	(95.5)
Cash flows from financing activities		
Proceeds from senior notes due 2027 (including original issue discount of $1.7)		398.3
Issuance costs related to senior notes due 2027		(3.7)
Proceeds from settlement of treasury locks associated with senior notes due 2027		10.0
Proceeds from Euro term loan		37.4
Borrowing from senior unsecured credit facility	133.0	175.0
Repayment from senior unsecured credit facility	(105.0)	(455.0)
Repayment of capital lease obligation and other debt, net		(0.1)
Dividends paid	(11.2)	(10.1)
Repurchase of stock	(30.1)	(63.7)
Activity under stock plans	(2.2)	(0.3)
Net cash (used in) provided by financing activities	(15.5)	87.8
Effect of exchange rate changes on cash and cash equivalents	2.1	0.4
Net (decrease) increase in cash and cash equivalents	(10.3)	46.9
Cash and cash equivalents at beginning of period	60.1	35.2
Cash and cash equivalents at end of period	$49.8	$82.1
Supplemental data:		
Accrual basis additions to property, plant and equipment	$45.3	$92.9

The accompanying notes are an integral part of these condensed consolidated financial statements.

HEXCEL CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 — Significant Accounting Policies

In these notes, the terms "Hexcel," "the Company," "we," "us," or "our" mean Hexcel Corporation and subsidiary companies. The accompanying Condensed Consolidated Financial statements are those of Hexcel Corporation. Refer to Note 1 to the consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our significant accounting policies. Significant changes to our accounting policies subsequent to the filing of our Form 10-K, relate solely to the adoption of Topic 606, Revenue from Contracts with Customers, are discussed below in Recent Accounting Pronouncements as well as in Note 9.

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements have been prepared from the unaudited accounting records of Hexcel pursuant to rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements have been omitted pursuant to rules and regulations of the SEC. In the opinion of management, the Condensed Consolidated Financial Statements include all normal recurring adjustments as well as any non-recurring adjustments necessary to present fairly the statement of financial position, results of operations and cash flows for the interim periods presented. The Condensed Consolidated Balance Sheet as of December 31, 2017 was derived from the audited 2017 consolidated balance sheet. Interim results are not necessarily indicative of results expected for any other interim period or for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2017 Annual Report on Form 10-K. Within the Unaudited Condensed Consolidated Statement of Cash Flows for the quarter ended March 31, 2017, borrowings and repayments related to our revolving credit facility previously presented net within financing activities have been presented gross to conform to the current year presentation.

Investments in Affiliated Companies

At March 31, 2018, we had a 50% equity ownership investment in a joint venture Aerospace Composites Malaysia Sdn. Bhd. ("ACM"). This investment is accounted for using the equity method of accounting.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers ("ASC 606"). The update clarifies the principles for recognizing revenue and develops a common revenue standard for all industries. We adopted this new standard January 1, 2018, using the modified retrospective method. As a result of adopting this guidance under the modified retrospective method we adjusted the opening balance of our retained earnings by approximately $3.8 million, which represented the cumulative net earnings effect of revenue recognized over time prior to the date of adoption, related to those contracts whose performance obligations were not fully satisfied by the adoption date.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02 (ASU 2016-02), Leases. This ASU requires lessees to recognize a right of use asset and lease liability on the balance sheet for all leases, with the exception of short-term leases. The Company will adopt this standard on January 1, 2019. We are currently evaluating the impact of adopting this guidance on our consolidated balance sheets, results of operations and financial condition.

In August of 2016, the FASB issued Accounting Standards Update No. 2016-15 (ASU 2016-15) Classification of Certain Cash Receipts and Cash Payments which clarifies the classification of certain types of cash flows. The Company adopted this standard during the quarter ended March 31, 2018. There was no material impact on the Company's Consolidated Statements of Cash Flows.

In March 2017, the FASB issued Accounting Standards Update No. 2017-07 (ASU 2017-07), Compensation-Retirement Benefits, that amends the presentation of net periodic pension cost and net periodic postretirement benefit cost. This amendment requires entities to disaggregate the service cost component from the other components of net periodic benefit cost, to report the service cost component in the same line item as other compensation costs and to report the other components of net periodic benefit cost separately as a line item below operating income on our statement of operations. In addition, capitalization of net periodic benefit cost in assets is limited to the service cost component. We adopted this amendment on January 1, 2018. The adoption did not have a material impact to our financial statements or disclosures.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12 (ASU 2017-12), Targeted Improvement to Accounting for Hedging Activities, which better aligns hedge accounting with an organization's risk management activities in the financial statements. In addition, the standard simplified the application of hedge accounting guidance in areas where practice issues exist. We adopted this standard on January 1, 2018, with no material impact to our results of operations, or financial position.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 (ASU 2018-02), Income Statement—Reporting Comprehensive Income (Topic 220), which amends the previous guidance to allow for certain tax effects "stranded" in accumulated other comprehensive income, which are impacted by the Tax Cuts and Jobs Act (the "Act"), to be reclassified from accumulated other comprehensive income into retained earnings. This amendment pertains only to those items impacted by the new tax law and will not apply to any future tax effects stranded in accumulated other comprehensive income. This standard is effective for fiscal years beginning after December 15, 2018, and allows for early adoption. The Company elected to early adopt this standard during the quarter ended March 31, 2018. As a result of the adoption of this standard the Company reduced the opening balance of retained earnings by approximately $1.6 million.

Note 2 — Net Income per Common Share

(In millions, except per share data)	Quarter Ended March 31, 2018	2017
Basic net income per common share:		
Net income	$61.6	$64.6
Weighted average common shares outstanding	90.0	91.4
Basic net income per common share	$0.68	$0.71
Diluted net income per common share:		
Net income	61.6	64.6
Weighted average common shares outstanding — Basic	90.0	91.4
Plus incremental shares from assumed conversions:		
Restricted stock units	0.5	0.5
Stock options	0.7	1.0
Weighted average common shares outstanding — Dilutive	91.2	92.9
Diluted net income per common share	$0.68	$0.70

Total shares underlying stock options of $0.2 million were excluded from the computation of diluted net income per share for the three months ended March 31, 2018, and March 31, 2017, as they were anti-dilutive.

Note 3 — Inventories

(In millions)	March 31, 2018	December 31, 2017
Raw materials	$ 133.2	$ 126.7
Work in progress	44.8	52.1
Finished goods	122.8	135.2
Total Inventory	$ 300.8	$ 314.0

Note 4 — Retirement and Other Postretirement Benefit Plans

We maintain qualified and nonqualified defined benefit retirement plans covering certain current and former U.S. and European employees, retirement savings plans covering eligible U.S. and U.K. employees and certain postretirement health care and life insurance benefit plans covering eligible U.S. retirees. We also participate in a union sponsored multi-employer pension plan covering certain U.S. employees with union affiliations.

Defined Benefit Retirement Plans

Net Periodic Benefit Costs

Net periodic benefit costs of our defined benefit retirement plans for the quarter ended March 31, 2018 and 2017 were as follows:

(In millions)	Quarter Ended March 31, 2018	2017
U.S. Nonqualified Defined Benefit Retirement Plans		
Service cost	$0.3	$0.3
Interest cost	0.1	0.2
Net amortization and deferral		0.1
Net periodic benefit cost	$0.4	$0.6

(In millions)	March 31, 2018	December 31, 2017
Amounts recognized on the balance sheet:		
Accrued liabilities	$ 4.8	$ 4.5
Other non-current liabilities	17.1	16.9
	$ 21.9	$ 21.4

(In millions)	Quarter Ended March 31, 2018	2017
European Defined Benefit Retirement Plans		
Service cost	$0.3	$0.2
Interest cost	1.1	1.1
Expected return on plan assets	(2.4)	(2.0)
Net amortization and deferral	0.1	0.1
Net periodic benefit credit	$(0.9)	$(0.6)

(In millions)	March 31, 2018	December 31, 2017
Amounts recognized on the balance sheet:		
Noncurrent asset	$ 36.6	$ 32.2